annual report 1966

DEPARTMENT OF DEFENCE PRODUCTION

SIXTEENTH REPORT

of the

DEPARTMENT

of

DEFENCE

PRODUCTION

1966

Hon. C. M. DRURY, P.C., C.B.E., D.S.O., Q.C., M.P., *Minister*

G. W. HUNTER, *Deputy Minister*

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To His Excellency The Honourable Robert T. Taschereau,
P.C., LL.D., Administrator and Chief Justice of Canada.

March 21, 1967

MAY IT PLEASE YOUR EXCELLENCY:

I have the honour to submit to your Excellency the Report of the Department of Defence Production for the calendar year 1966.

A summary of the operations and services rendered by this Department, under their respective headings, is laid before your Excellency.

Respectfully submitted,

Minister of Defence Production.

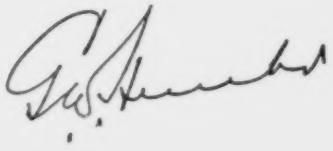
The Honourable C. M. Drury, P.C., C.B.E., D.S.O., Q.C., M.P.,
Minister of Defence Production,
Ottawa, Ontario.

March 21, 1967

Dear Sir:

I have the honour to submit the Report of the Department of Defence Production, which covers the operations and services rendered during the calendar year 1966.

Yours faithfully,



Deputy Minister.

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1966 Departmental Highlights

- Total net value of all prime contracts $1,030 million, an increase of more than $317 million over 1965.
- Contracts placed for external aid programs rose 80% from $19.65 million in 1965 to $35.42 million.
- Purchases for civil departments totalled $90.3 million, an increase of $34 million from 1965.
- Manufacturing criteria for Canada's national flag issued.
- Project management techniques inaugurated.
- 27 Motor vehicle safety standards developed and "The Guide to Traffic Safety" published.
- Purchases totalling $10 million made for Expo '67.
- $49 million contract for naval support ships *Protecteur* and *Preserver*, largest single shipbuilding contract ever placed in Canada.

Role of the Department

The original role of the Department of Defence Production, which was established in 1951 under the provisions of the Defence Production Act in order to carry out the procurement function for Canada's defence program, has been considerably expanded in recent years.

As a result of the responsibilities given to the Department in 1963 by the Government relating to the implementation of certain recommendations of the Royal Commission on Government Organization, a central purchasing and supply agency has been established to satisfy both civil and defence needs.

In line with the Government's intention to establish a common service agency responsible for purchasing and supply, the Department is now clearly emerging in this role.

Faced with an increasingly higher cost of developing and producing modern military equipment, the former policy of unilateral weapons development for NATO and friendly countries is rapidly giving way to a variety of bilateral and multilateral dealings between allies and other friendly nations. These are invariably designed to replace the waste of duplication with the savings of co-operation. In order to provide the most modern weapons for its Armed Forces, Canada has had to take advantage of the economies inherent in securing defence equipment as a result of selective participation in the major programs of our allies.

In its present role, the Department is also responsible for undertaking measures to encourage the development and production in Canada of defence equipment for sale to our allies with a view to maintaining an equitable balance of payment as well as to maximize the technological advances to the nation.

Accordingly, these measures include defence development and procurement sharing with the United States and defence production activities with other members of the NATO Alliance and friendly countries. It also involves the purchasing in Canada of those goods and services required by foreign governments under a variety of international agreements.

The Minister reports to Parliament, not only for the Department of Defence Production, but also for the following Crown corporations:—Canadian Commercial Corporation, Canadian Arsenals Limited, Crown Assets Disposal Corporation and the Polymer Corporation Limited. Each of these organizations issue their own annual report as does the Canadian Government Printing Bureau, which reports to the Minister through the Deputy Minister of Defence Production.

Departmental Re-Organization

During 1966 the organization of the Department of Defence Production was changed to implement the recommendations of the Glassco Royal Commission on Government Organization relating to the formation of a central purchasing and supply agency for the Federal Government. Other changes were made to improve the overall effectiveness of the Department's operations.

Under the re-organization there will be further development of two key services within the Department, the Canadian Government Supply Service and the Canadian Government Purchasing Service. The CGSS will be augmented and the present structure changed to create greater self-sufficiency. Supply centres will be operated at the regional level with supporting headquarters' branches covering the functions of traffic management, cataloguing, specifications and standards, quality management and supply management. The Crown Assets Disposal Corporation will continue to be closely associated with the Department.

In a similar fashion to CGSS, the Canadian Government Purchasing Service will be created with a high degree of self sufficiency. The CGPS will contain five operational branches: Aerospace, Electrical and Electronics, Shipbuilding, Armament and Vehicles, and General Purchasing. Operations will be supported by branches providing the contracts analysis, purchase research, contract administration, and legal functions.

An Assistant Deputy Minister — Operations will be responsible for DDP direction of all major acquisition project activity, both civil and military and the Defence Export Program. This work will be carried out by a new Project Management Branch and a re-organized International Programs Branch. The ADM Operations will also carry responsibility for certain industrial development activities within the Department of Industry.

Surveillance of departmental operations will be maintained by a new Planning and Control Branch which will be responsible for integrating the plans, programs and activities of the supply, purchasing and operations functions, and for ensuring compatibility of policies and procedures with those of customer departments. This new branch, together with Financial Review and Comptrollers Branches will come under an Assistant Deputy Minister — Finance.

Under this arrangement, the Director of the Personnel Branch, the Legal Adviser, the Security Adviser and the Departmental Secretary will report directly to the Deputy Minister. As of December 31, 1966, the Department had 2,668 employees.

Supply Program

During 1966, the Canadian Government Supply Service (CGSS) made progress in developing the organizational structure, management plans and operating systems required for the consolidation of civil government supply activities. These important preliminary activities will permit the Canadian Government Supply Service to gradually assume responsibility for the supply activities now being carried out individually by numerous departments and agencies across the country.

During the year, the Supply Service was re-organized to achieve a separation of regional operations from the support and functional activities of the headquarters elements. Among the principal features of the re-organization were:

The Assistant Deputy Minister — Supply was provided with two new elements to assist him in managing the CGSS.

(1) A Director-General Operations to be responsible for regional operations.

(2) A Director-General Technical Services to be responsible for the support activities and functional direction required by the CGSS and for providing specified technical support to other elements of the Department.

Director-General Operations

In 1966, the Director-General Operations organization was established, with the primary mission of directing all aspects of CGSS regional operations and ensuring the effectiveness and efficiency of:

the *Equipment Management Branch,* which includes the Canadian Government Repair Service and its seven repair offices from Vancouver to Halifax;

the *Regional Purchasing Branch,* which consists of a headquarters component, thirteen regional purchasing offices in Canada and overseas offices at London, Paris and Koblenz;

the *CGSS Warehouses in Toronto and Montreal,* and the *No. 1 Supply Centre, Capital Region.*

Equipment Management and the Canadian Government Repair Service

The Equipment Management Branch was established in June 1966 to conduct research and develop policies for the life cycle management of non-military machines, equipment and other products used by the government. During the year, programs for motor vehicle fleet management and the life cycle management of office machines, equipment and furniture were introduced.

The Canadian Government Repair Service, a division of the Equipment Management Branch, provides maintenance, repair and overhaul services, and the technical evaluation of office machines and equipment for federal government activities in Canada.

Regional Purchasing

During 1966, regional purchasing offices placed a total of 146,291 contractual documents, valued at $100 million.

The integration of civil purchasing, which began in 1964, continued in 1966 with the Regional Purchasing Branch accepting responsibility for a wide variety of materials and services to meet the local needs of the Departments of National Health and Welfare, Veterans Affairs, Indian Affairs and Northern Development (National Parks and Historic Sites), the National Art Gallery, the Public Archives, the National Library, the National Museum and the offices of the Chief Electoral Officer. This assumption of field purchasing responsibility has necessitated, in some instances, the transfer of personnel who have now been integrated into the appropriate regional offices.

The Branch continued to provide purchasing services to the Canadian Corporation for the World Exhibition through a special component established for this purpose as an adjunct to the Montreal office. Purchases totalling approximately $10 million were made by the Branch during 1966 on behalf of Expo '67.

No. 1 Supply Centre—Capital Region

The No. 1 Supply Centre completed its first full year of operations in 1966 and is now supplying a wide range of commercial products and services to government departments and agencies.

During the year, 170,000 supply requisitions were received, and over $12.5 million in goods were furnished to government users. Inventory levels were reduced by $400,000 during the year, with the total inventory at December 31, 1966 amounting to $1.9 million. Substantial transportation savings were also realized through improved organization and the consolidation of both inbound and outbound shipments.

Traffic Management

During 1966, the Traffic Management Branch was involved in an analysis of the transportation component of contracts, rate negotiation, control of routing and the audit of freight accounts. The Branch has been responsible for the development of a new master insurance policy which covers household effects in transit for members of the armed forces and government personnel.

Hotel reservation services to meet the requirements of all government departments in Montreal during Expo '67 have been established. On behalf of the Canadian Commercial Corporation, the Branch managed the shipment of over 300,000 tons of materials with a valuation of $45 million for foreign governments and aid programs.

Cataloguing

The Cataloguing Branch during 1966 converted all the stock items managed by the CGSS to the NATO cataloguing system. This was a major step in the introduction of a national uniform supply language leading to a fully integrated automated supply system. In addition a wide range of items, which were included in the purchasing and supply consolidation program, were codified and listed in interim catalogues.

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Standards and Specifications

During 1966, the manufacturing criteria for Canada's national flag was prepared by the Specifications Branch on the basis of technical specifications developed by the Department of National Defence.

As a result of increased national concern on the subject of motor vehicle safety, a broadly representative committee was established under the auspices of the Canadian Government Specifications Board to develop a set of standards. The Committee was composed of representatives from several federal government departments, all of the Provinces, the Canadian Federation of Mayors and Municipalities, the motor vehicle manufacturing industry, national and provincial safety associations as well as a number of other interested organizations.

As a result of meetings held during June and October, 1966, the Committee successfully developed a set of 27 motor vehicle safety standards. In addition, the Committee has issued a "Guide to Traffic Safety" which deals with the human factor, the vehicle and the environment as they relate to highway safety.

Quality Management

The Branch reviewed the quality characteristics and testing procedures called for in specifications and standards and engaged in quality control activities for the CGSS and in support of the Department's purchasing program.

Supply Management

The Supply Management Branch was formed in December 1966 from elements of the Warehousing and Distribution Branch and General Services Branch.

In concert with the Department of National Defence, systems development work is proceeding towards the definition and establishment of a supply system which will accommodate the requirements of the Department of National Defence and civil agencies of the government.

Emergency Supply

The Emergency Supply Planning Branch, which reports to the Assistant Deputy Minister of Finance, is responsible for the peacetime planning that would be required for the introduction of a War Supplies Agency following a nuclear attack.

Such an agency, brought into existence at the outbreak of such a war, would control production, distribution and pricing of supplies for civil and military use, other than certain aspects which remain the responsibility of the Departments of Agriculture and Fisheries respectively.

The plan evolved by the Branch has several parts, — an organization for a War Supplies Agency, an inventory of stocks of survival items and the drafting of those legal instruments necessary to permit effective control of commodities and production facilities following a nuclear attack.

Purchasing Program

During 1966, the total net value of all prime contracts negotiated by the Department of Defence Production was $1,030.8 million, an increase of more than $317.4 million over the previous year's operations.

Contracts for the Department of National Defence at $710.8 million in 1966 represented an increase of 50% over the 1965 figure of $473.5 million. Of the total net value of all contracts issued, defence contracts represented 69 per cent in 1966 as compared with 66.3 per cent in 1965.

Table 1 — Net Value of Contracts

Sources for which Contracts Issued	1963	1964	1965	1966
	$000	$000	$000	$000
Department of National Defence	522,277	497,158	473,534	710,838
Department of Defence Production				
Votes in Support of Defence Industry	11,330*	9,565*	1,463	8,156
Federal Civil Departments and Agencies	1,543	26,171	56,610	90,365
Canadian External Aid	11,646	13,075	19,650	35,421
Foreign Governments	135,172	112,417	162,157	186,068
TOTAL	$ 681,968	$ 658,386	$ 713,414	$1,030,848

*Includes contracts to sustain technological capability in defence industry later transferred from DDP Vote 20 to DOI Vote 5.

Prime defence contracts placed in Canada on behalf of foreign governments through Canadian Government agencies totaled $186 million, an increase of $23.9 million from the 1965 figure. Of the total value of contracts placed for foreign governments, the largest portion represented contracting undertaken on behalf of the United States Government.

Table 2 — Expenditures Against Contracts

Sources Paying The Contracts	1963	1964	1965	1966
	$000	$000	$000	$000
Department of National Defence	524,780	546,232	462,732	483,657
Department of Defence Production				
Votes in Support of Defence Industry	16,776†	10,489†	1,656	4,882
Federal Civil Departments and Agencies	3,325	25,052‡	42,773‡	86,762‡
Canadian External Aid	21,079	15,520	13,826	36,027
Foreign Governments	189,288	158,762	107,847	148,850
TOTAL	$755,248	$756,055	$628,834	$760,177

†Includes expenditures against contracts referred to in footnote following Table I.
‡Expenditures against federal civil departments and agencies are estimated.

Contracts issued against this Department's Votes to assist in the modernization of Canada's defence industry had a net value of $8.1 million compared to the figure of $1.4 million issued in 1965.

Contracts placed on behalf of federal civil departments and agencies were valued at $90.3 million, an increase of over $35 million from the 1965 figure of $54.6 million.

Contracts placed for External Aid Programs rose by 80 per cent from $19.6 million in 1965 to $35.4 million in 1966.

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Shipbuilding

Operational Support Ships

Following the process of competitive tenders, Saint John Dry Dock Limited, Saint John, N.B., emerged as the successful bidder for the supply of two operational support ships for the Royal Canadian Navy valued at a total of $49.1 million, the largest ship building order ever placed in Canada. The addition of the *Protecteur* and the *Preserver* will greatly enhance the Navy's anti submarine warfare capability by enabling Canadian warships to remain "on task" for considerably longer periods of time than is now possible.

St. Laurent Class Modernization Program — 7 Ships

The modernization and refit of the first 6 vessels of the St. Laurent class, the *St. Laurent, Assiniboine, Ottawa, Saguenay, Skeena* and *Margaree* has been completed. Work on the last vessel HMCS *Fraser* began in 1965 and was completed during the latter part of 1966. Work on HMCS *Skeena,* HMCS *Margaree* and HMCS *Fraser* was carried on as a result of competitive tenders and the estimated cost of the modernization work for these three ships is $8.2 million while the refit portion totals $2.5 million.

Restigouche Class Modernization Program — 7 Ships

The total estimated value of this program has been set at $61.5 million, and work on the first vessel of this class, HMCS *Terra Nova,* is expected to be completed during the early part of 1967

Oberon Class Submarines

Three Oberon class submarines are being purchased from Great Britain at a total cost of $37.5 million. The first vessel, the *Ojibwa,* was delivered to the Royal Canadian Navy in September, 1965. The second submarine, the *Onondaga,* is scheduled for delivery in May 1967, and it is anticipated that the third will be delivered to Canada in 1968.

Research Vessels

During the first half of 1967, four research vessels will be delivered to the Department of Energy, Mines and Resources. These ships are designed for hydrographic, oceanographic and limnographic research work in international, Canadian Coastal and Great Lakes waters.

Aerospace

During 1966, the Department issued contracts in the aerospace field valued at $361 million, compared with $225.5 million for the previous year. Of the 1966 amount, $282.5 million was for Canadian Forces aircraft, aerospace equipment and services. A total of 679 repair and overhaul contracts with amendments, valued at almost $50 million, were placed. These were distributed among 52 Canadian, 6 British and 3 American facilities. The production of 190 CT114 Tutor Primary Training aircraft for the Royal Canadian Air Force was completed during the year.

CF-5 Aircraft

License, reconfiguration and technical assistance agreements were negotiated by the Department with the Northrop Corp. for the manufacture of the F5-CF5 aircraft, and the General Electric Company for the J85-15 engines. Contract arrangements were also made with Canadair for a total of 115 aircraft, while orders were placed with Orenda for 292 of the engines. Delivery of the first aircraft is scheduled for 1967, and the total program is expected to cost an estimated $215 million. In 1966, the management of this major acquisition was transferred to the Project Management Branch.

Black Brant

During the latter part of 1966, the Black Brant Rocket Development Program produced two highly successful flights. Test firing of the remaining family of three Upper Atmospheric Vehicles is continuing, and the DDP Revolving Fund is being used to establish an inventory stock pile of Black Brant Rockets. This measure is designed to foster off-the-shelf export sales. In addition to this, the development of a Meteorological Rocket System by Canada and the United States on a shared basis has progressed, and contracts were issued to cover additional exploratory research as part of a four year program.

Surveillance Drone

The Federal Republic of Germany joined the original partners, Canada and Britain, during the year in the development of the Canadian designed Short Range Surveillance Drone. Military evaluation trials of this $30 million project have been reviewed by the three armies involved and it is anticipated that production of the Drone will commence early in 1967.

Turbine Engines

During the year, production of the successful Canadian designed PT-6 turbine engine at United Aircraft Canada Ltd., continued to grow with a production rate of 100 engines per month earmarked for 1967. Contract arrangements are being made for the U.S. Army to acquire approximately 220 engines together with spares and technical support.

Armament and Vehicles

Negotiations were completed during the year for substantial sales of anti-submarine projectiles to Great Britain and the Netherlands. In the same period, capital assistance was furnished to several Canadian manufacturers for ammunition components under the Defence Industry Modernization Program.

A variety of research and development projects were also undertaken for the Canadian Armed Forces and a Canadian designed launcher for a U.S. Missile System has resulted in an initial contract for the Canadian developer. A fluid state control sub-system for missiles, the XM 571 military personnel carrier, as well as the development of light weight binoculars are among a variety of projects which have benefitted from research and development work to date. Modifications to a

Canadian built torpedo provided it with an improved capability in shallow water, and this development has resulted in substantial foreign sales.

During the same period, major contracts were placed on behalf of the Department of National Defence to a value of $25.3 million for a wide variety of vehicles including aircraft towing tractors, the 155 mm. self-propelled howitzers, as well as refueling trucks and snow removal vehicles. At the same time, there was a substantial increase in both the volume and value of vehicles and stores procured for civilian use due to the progressive take-over of the buying function from other departments and agencies.

Electrical and Electronics

During 1966, the Electrical and Electronics Branch effected considerable progress in the consolidation and improvement of communication requirements of the Department of National Defence. The introduction of new communications equipment, such as the Ultra High Frequency hand-held transceivers, has achieved success as has the Canadian developed Tactical Radio Relay Equipment and Multiplexers. Orders have been received from several of the NATO Nations.

The Alouette/ISIS Satellite Program continues on schedule, and the third satellite in the series is expected to be completed in August 1967. During the year a major sonar production program was awarded to Canadian industry, and the production of sonobuoys to support anti-submarine aircraft warfare was continued at a high level. Canada has established a technical lead for this type of sonar, as well as the techniques used in radio ionospheric sounding equipment.

International Programs

The Department's international responsibilities and functions include the management and administrative support of the Canadian Commercial Corporation, the establishment of co-operative defence industrial research, and development and production arrangements with Canada's allies. These activities are directed through the medium of an International Programs Branch supported by a group of specialist personnel located in the United States, Britain, France, Germany and in the Canadian Delegation to the North Atlantic Council. During 1966 these services were augmented by the addition of an officer located in Rome, Italy.

Canadian Commercial Corporation

The operations of the Canadian Commercial Corporation are closely integrated with those of the Department, however, it retains its corporate identity under its President who serves also as the Director of the Department's International Programs Branch.

During 1966 the total dollar value of business received by the Corporation from other governments, international agencies and Departments of the Government of Canada amounted to $210 million, representing an increase of almost $16 million over the previous year

Defence Equipment Development Program

This program, which is designed to assist in maintaining the defence industrial base in Canada, was established in 1959. Besides sustaining and advancing technology, the program supports, on a cost-sharing basis, the development of defence equipment to meet the requirements of other allied governments. Funds for this program are administered by the Department of Industry which is also responsible for the initiation of specific development projects in conjunction with the Department of Defence Production.

Defence Industrial Modernization Program

Established in 1964, this program also provides assistance to the Canadian defence industry to meet the competitive demands placed upon it by modern manufacturing technology, new materials, closer tolerances and higher reliability. It is also designed to foster the establishment of qualified Canadian sources of advanced components and materials. This latter feature was added during 1966 by consolidation with the former Strategic Components Sourcing Program.

With this assistance Canadian defence industry has acquired and put to use modern numerically controlled machining centres, electronic beam welders, chemical milling machines and other advanced machinery and equipment. The resulting increased productivity has led to significant gains in sales of Canadian designed defence equipment abroad.

To date 133 projects have been initiated with a total value of $38.4 million and 90 of these having a combined value of $29.6 million were approved during 1966.

Canada-United States Defence Production Sharing Program

Established in 1959, this program is designed to permit the most economical and efficient utilization of the North American defence industrial base. The program provides for reciprocal procurement of items of mutual defence interest on a balanced basis between both countries. A wide range of defence items are covered by the program but off-the-shelf general supplies, construction, basic raw materials, fuels and lubricants, and special services are excluded.

United States contracts placed in Canada under the program during the year were valued at $317.1 million. The total value of United States procurement in Canada since the inception of the program amounts to $1,491.3 million. Canadian defence purchases from the United States under the program during 1966 reached $332.6 million with the total value of Canadian procurement since the start of the program amounting to $1,314.2 million. The cumulative balance in Canada's favour at the end of 1966 was $177.1 million.

CANADA - U.S. DEFENCE PRODUCTION SHARING PROGRAM (1962 - 1966)

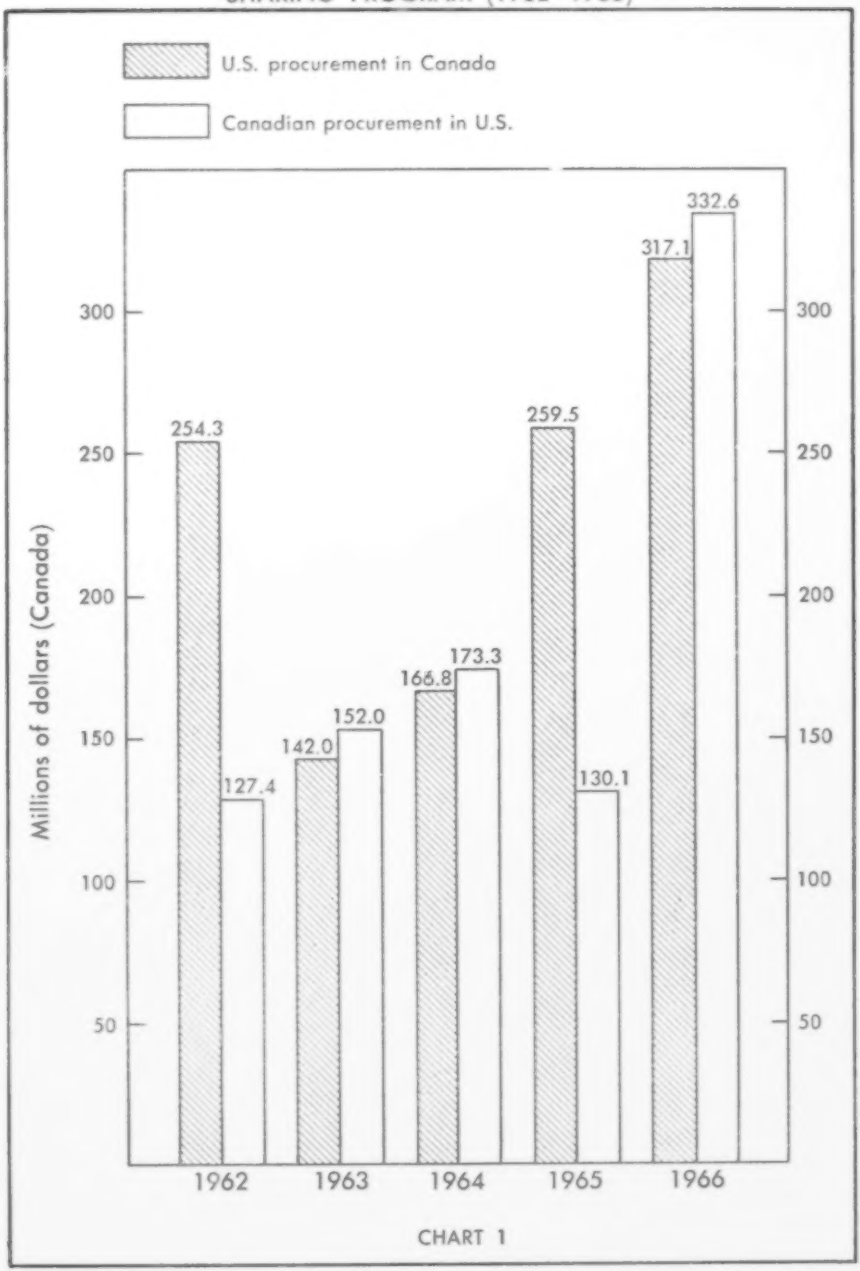


CHART 1

Overseas Programs

During 1966, the Department continued its efforts to establish co-operative defence development and production programs with Canada's NATO partners and other friendly countries. By a variety of communication methods, including briefings, missions and industrial tours the special technological skills of Canadian defence industries were brought to the attention of these countries as a basis for possible collaborative program.

Contracts placed in Canada during 1966 by or on behalf of overseas defence agencies for military requirements, totalled $78.3 million in value representing an increase of $10.6 million over 1965. In the same period Canadian purchases of defence supplies from overseas countries totalled $30.1 millions. Over seventy Canadian firms have participated in exporting to some 40 countries, excluding the United States. Significant among these exports were sales of Canadian training and transport aircraft and communications equipment.

NATO Infrastructure

The efforts of the Department to encourage Canadian Industry participation in the NATO common infrastructure program resulted during the year in some limited initial success. Contracts awarded in 1966 to Canadian firms in open competition amounted to approximately one-half million dollars.

CANADA - OVERSEAS DEFENCE TRADE (1962 - 1966)

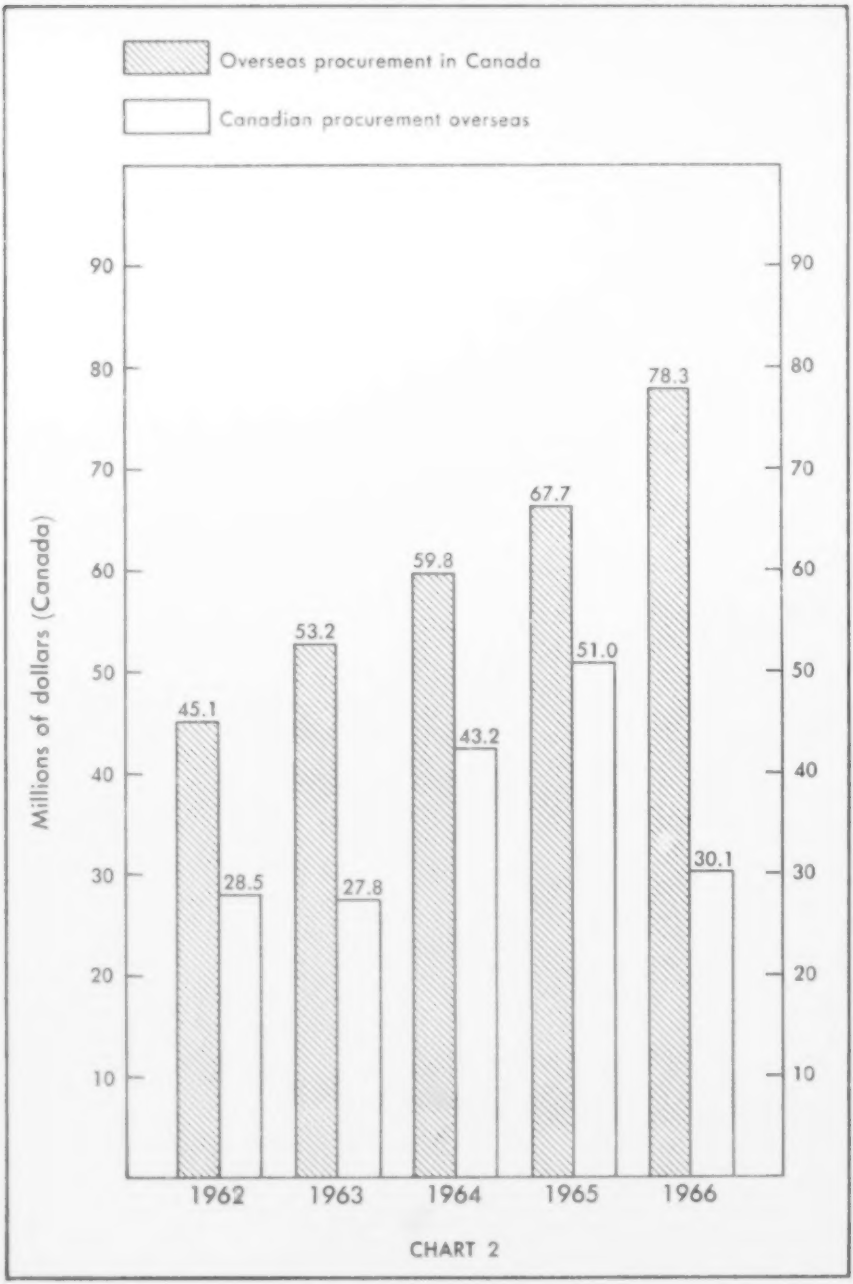


CHART 2

Project Management

During 1966, a study of defence acquisition, methods and techniques indicated the need to update the Department's management of major defence procurement projects. Accordingly, it was decided to initiate a program of single office project management wherein a single officer would be assigned authority and responsibility for the successful management of all aspects of the implementation phase of an individual procurement project.

Within the concept of Project Management, there are two general classes of projects:

(a) Major defence acquisitions being undertaken for the Department of National Defence where the interdepartmental Project Manager is responsible for management of all the related activities within the two departments.

An example of this class of project is:

The DDH 280 and Class Destroyers. These are destroyer escorts equipped to carry two anti-submarine helicopters. They are unique in that gas turbine engines will be used for both the main generating machinery and also for propulsion of the ships. Contracts have been awarded for the propulsion and generating machinery, and tenders for ship construction are expected to be issued during 1967.

(b) Projects for the development and production of new defence systems to meet the requirements of other countries are also managed by the Branch.

An example of this class of project is:

Periscopter. This system will be used by units in the forward battle area for surveillance and target acquisition. The Federal Republic of Germany has demonstrated an active interest in the project.

Both of the foregoing projects were transferred during 1966 to the Project Management Branch from the operational branches where they were previously located.

Ottawa, March 6, 1967.

The Honourable C. M. Drury,
Minister of Industry,
Ottawa.

Sir,

I have examined the Balance Sheet of the Department of Defence Production and the Statement of Trading Operations of the Defence Production Revolving Fund for the year ended March 31, 1966.

The general account section of the Balance Sheet includes capital and other assets, acquired through the medium of parliamentary appropriations, for which the Department is accountable. In accordance with established government practice, these assets are carried at cost and no provision is made for known diminution in value of the clothing and footwear or for depreciation of the capital assets.

Included with the Revolving Fund Accounts receivable are non-interest bearing advances of $2,774,490 to manufacturers to assist them in the acquisition of capital equipment under the Defence Industry Modernization Program. As section 16(2) (c) of the Defence Production Act, R.S., c. 62, expressly prohibits the making of loans to assist in the acquisition of capital equipment, it is my view, that these advances have been made without authority.

Raw quartz is included in the Inventories of strategic materials at cost, $6,083,017 and its realizable value has been estimated at $3,083,017. Recent sales have been at prices averaging 22% of original cost, thus indicating that the realizable value may be only about $1,338,000.

The Revolving Fund included an accumulated surplus of $2,286,292 at March 31, 1966. In our reports for each of the last two years we have expressed the opinion that this surplus should have been transferred from the Revolving Fund as revenue. This opinion is now supported by the Standing Committee on Public Accounts which in its Tenth Report presented to the House of Commons on February 7, 1967 recommends that the surplus in the Revolving Fund be transferred annually from that Fund as budgetary revenue.

I now report that, in my opinion, subject to the foregoing, the accompanying Balance Sheet, Exhibit I, and the Statement of Trading Operations, Exhibit II, of the Defence Production Revolving Fund present fairly the financial position of the Department as at March 31, 1966 and the results of the trading operations of the Fund for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Yours faithfully,

A. M. HENDERSON,
Auditor General of Canada.

Exhibit I

Balance Sheet as at March 31, 1966

(with comparative figures as at March 31, 1965)

ASSETS		1966	1965
GENERAL ACCOUNT			
Deposits with Receiver General		$ 2,533,363	$ 455,306
Imprest funds		12,445	6,352
Accounts receivable	$ 666,517		501,248
Deduct: Uncollectible accounts	258,991		258,991
		407,526	242,257
Loans and advances to employees		22,443	19,692
Receivable under agreements of sale of land, buildings and equipment		2,402,534	4,130,983
Loan to the Township of Toronto		168,382	193,656
Working capital advances —			
Defence Production Revolving Fund	22,589,633		—
Canadian Commercial Corporation	5,500,000		3,500,000
Canadian Arsenals Limited	5,000,000		7,500,000
Queen's Printer's advance	3,715,578		—
		36,805,211	11,000,000
Inventory of clothing, footwear, etc., at cost		7,898,298	4,913,690
Investments in Crown Corporations, at cost —			
Capital Stock: (Note 1)			
Polymer Corporation Limited	30,000,000		30,000,000
Defence Construction (1951) Limited	—		30
Canadian Arsenals Limited	30		30
		30,000,030	30,000,060
Land, buildings, machinery and equipment, at cost, including rehabilitation and installation costs (Note 2)		105,314,694	125,738,105
		$185,564,926	$176,700,101

LIABILITIES AND GOVERNMENT EQUITY	1966	1965
Accounts payable and other liabilities	$ 2,626,842	$ 507,164
Equity of Government of Canada, Appendix I	182,938,084	176,192,937
	$185,564,926	$176,700,101

Revolving Fund

Accounts receivable		$ 20,653,454	$ 14,740,837
Progress payments and advances to suppliers		9,046,427	43,717,413
Working capital advances		330,000	330,000
Inventories of strategic materials, etc., at cost (estimated realizable value $4,037,489)	$ 7,036,306		8,224,439
Inventory shortage, cobalt, at cost (Note 3)	1,188,599		1,190,765
		8,224,905	9,415,204
		$ 38,254,786	$ 68,203,454

Accounts payable and deferred liabilities		$ 4,804,017	$ 2,890,076
Progress payments from customers		8,574,844	32,620,849
Equity of Government of Canada —			
Working capital advance, as provided by Section 16 of the Defence Production Act (authorized $100,000,000)	$22,589,633		30,157,245
Surplus:			
Balance at April 1/65	1,818,444		1,255,779
Add: Net income per Statement of Trading Operations	467,848		562,665
Balance at March 31, 1966, Appendix II	2,286,292		1,818,444
		24,875,925	31,975,689
Advances for the purchase and storage of strategic materials authorized by parliamentary appropriations prior to the inception of the Department			716,840
			32,692,529
		$ 38,254,786	$ 68,203,454

The appended notes form an integral part of this statement.

Approved on behalf of the Department.

G. W. HUNTER
Deputy Minister

N. R. MacLEAN
Comptroller

I have examined the above Balance Sheet and the related Statement of Trading Operations of the Defence Production Revolving Fund and have reported thereon under date of March 6, 1967, to the Minister of Industry.

A. M. HENDERSON
Auditor General of Canada

Notes to the Financial Statements at March 31, 1966

1. In addition to its investment in Polymer Corporation Limited the Crown has an equity of $66,244,626 at December 31, 1966 in the retained earnings of Polymer Corporation Limited and its subsidiaries, an increase of $5,802,623 in the year ended on that date.

The investment in Canadian Arsenals Limited is carried at $30.00, the cost of the Capital Stock which is also the value of the equity in Canadian Arsenals Limited.

2. In addition to the fixed assets shown on the Balance Sheet, the Department is responsible for production tooling, dies and jigs costing $179,604,132, located in warehouses and contractors' plants, title to which is vested in the Crown.

3. An inventory of 343,552 lbs. of refined cobalt was certified as being on hand in the custodian's warehouse at March 31, 1965, however, a shortage of 314,816 lbs., costing $1,188,599 (net realizable value $601,299) was discovered in May 1965 and is still under investigation. Partial recovery in the amount of $46,223 has subsequently been made.

Defence Production Revolving Fund

Statement of Trading Operations for the year ended March 31, 1966

(with comparative figures for the year ended March 31, 1965)

		1966	1965
Sales at cost —			
Aircraft and components		$ 50,853,624	$ 93,091,984
Research and development		15,933,246	13,048,450
Munitions and propellants		2,939,593	1,878,591
Shipbuilding components		17,630	(171,042)
Sonobuoys		—	75,000
		$ 69,744,093	$107,922,983
Strategic materials —			
Sales		$ 57,929	$ 34,424
Cost of Sales		54,124	34,034
Gross profit		3,805	390
Interest earned on —			
Agreements of sale of aircraft	$453,039		551,372
Working capital advances for the operation of Crown-owned plant	19,745		14,434
		472,784	565,806
		476,589	566,196
Deduct: Warehousing and other expenses — strategic materials		8,741	3,531
Net income		$ 467,848	$ 562,665

Summary of changes in Equity of Government of Canada Account for the year ended March 31, 1966

Balance at April 1, 1965		$176,192,937
Add:		
Adjustment to record working capital advances —		
Defence Production Revolving Fund	$ 22,589,633	
Queen's Printer's advance	3,715,578	
	26,305,211	
Transfer of assets from other departments and agencies of the Government of Canada, and from other governments	3,666,545	
Assets acquired from appropriations	396,469	
Canadian Commercial Corporation — Excess of income over expense for the year ended March 31, 1966	185,859	30,554,084
		206,747,021
Deduct:		
Transfer of surplus assets to Crown Assets Disposal Corporation	19,416,258	
Transfer of assets to other government departments and agencies	1,563,667	
Decrease in the working capital advances to Crown Corporations	500,000	
Collections under agreements of sale of land, buildings, equipment, etc., transferred to revenue	1,806,298	
Assets written off	481,093	
Sundry	41,621	23,808,937
Balance at March 31, 1966		$182,938,084

Defence Production Revolving Fund

Analysis of accumulated surplus as at March 31, 1966

(with comparative figures as at March 31, 1965)

		1966	1965
Interest earned on —			
Agreements of sale of aircraft	$1,564,304		$1,111,265
Working capital advance for the operation of Crown-owned plant	34,181		14,434
		$1,598,485	1,125,699
Profit on strategic materials sold	467,643		463,839
Deduct: Warehousing and other expenses	120,730		111,988
		346,913	351,851
Profit on cloth and wool sold — operations completed		340,894	340,894
Surplus as at March 31, 1966		$2,286,292	$1,818,444

Statement of Expenditures for the year ended March 31, 1966

(with comparative figures for the year ended March 31, 1965)

	1966	1965
Vote 1 Departmental Administration (including 1966 transfers of $484,667 from Dept. of Transport and $510,769 from Dept. of Public Works)		
Salaries	$ 15,467,364	$ 13,013,286
Living allowances	259,383	253,795
Travelling and removal expenses	498,351	430,014
Office stationery, supplies and equipment	668,128	480,460
Repairs to office equipment and acquisition of spare parts	517,401	435,907
Telephones and telegrams	335,727	286,675
Professional and special services	322,108	192,152
Postage	74,961	74,692
Freight, express and cartage	159,549	148,777
Rental of buildings and works	38,256	25,292
Publication of departmental reports and other material	83,281	16,234
Materials and supplies	24,795	8,846
Acquisition or construction of equipment	43,858	16,464
Repairs and upkeep of equipment	10,463	8,874
Sundries	59,242	37,677
Care, maintenance and custody of standby defence plants, etc.	88,113	583,180
Grants to municipalities in lieu of taxes	207,526	227,172
	18,858,506	16,239,497
Vote 5 Establishment of production capacity and for capital assistance		
Capital Account		
Equipment	—	326
Accountable advances to contractors	185,990	75,398
Current Account		
Defence Industry modernization	2,440,000	474,282
Establishment of production capacity	—	100,000
	2,625,990	650,006
Vote 10 Establishment of qualified sources for production of component parts and materials		
Current Account	229,729	439,209
Vote 15 Directorate of Printing		
Administration	—	565,642
Plant equipment and replacements	—	335,777
		901,419
Vote 40 Canadian Arsenals Limited		
Administration and operation	1,494,945	4,476,620

	1966	1965
Vote 45 Canadian Arsenals Limited		
Construction and improvement	$ —	$ 3,603
Equipment	181,317	115,125
Vote 11E Reimbursement of the Queen's Printer's Advance Account for value of stores which have become obsolete or unserviceable	44,476	—
Statutory — Gratuities to families of deceased personnel	930	1,990
Statutory — Exchequer Court awards	2,290	—
	23,438,183	22,827,469

NOTE: The total 1964-65 expenditure which was shown on the 1965 Annual Report of the Department at $24,146,395 has been reduced by $1,318,926 to $22,827,469 in order to reflect, for comparative purposes, the following activities transferred to and from other Departments during the current year:

Vote 35 Defence Construction (1951) Limited		
To Department of National Defence	—	$2,200,166
Vote 1 Purchasing and stores personnel		
From Department of Transport	$ 428,451	—
Department of Public Works	452,789	881,240
		1,318,926

Vote 15 Directorate of Printing — expenses ($901,419 in 1964-65) for the current and future years form part of the cost of printing and stationery of user Departments for 1965-66.

Statement of Revenue for the year ended March 31, 1966

(with comparative figures for the year ended March 31, 1965)

	1966	1965
Non-Tax Revenue		
Return on investments	$ 5,537,596	$ 5,593,577
Proceeds from sales	7,439,153	9,865,343
Services and service fees	223,168	143,480
Refunds of previous years' expenditure	25,735	14,032
Miscellaneous	77,075	27,035
	13,302,727	15,643,467

Senior Departmental Personnel

Minister

The Honourable C. M. Drury, P.C., C.B.E., D.S.O., Q.C., M.P.

Executive Assistant to the Minister	T. Porteous

Deputy Minister

G. W. Hunter

Assistant Deputy Minister, Supply	W. H. Huck
Assistant Deputy Minister, Operations	D. B. Mundy
Assistant Deputy Minister, Finance	R. M. Keith
Assistant Deputy Minister, Purchasing	J. S. Glassford
Departmental Secretary	W. J. Mulock
Director, Personnel Branch	H. R. Kotlarsky
Legal Adviser	C. S. Stevenson
Security Adviser	L. C. Cragg

Supply — Canadian Government Supply Service

Director-General, Operations	R. C. D. Laughton
Director, Regional Purchasing Branch	H. G. Hunt
Director, Equipment Management Branch	K. P. Ellis
Director, No. 1 Supply Centre Branch	R. A. Murray
Director, Traffic Management Branch	J. G. Whyte
Director, Cataloguing Branch	C. E. Adams
Director, Specifications & Standards Branch	D. Wolochow
Director, Supply Management Branch	H. H. Floyd
Director, Quality Management Branch	C. L. Muir

Purchasing — Canadian Government Purchasing Service

Director, Aerospace Branch	W. W. Reid
Director, Electrical & Electronics Branch	S. I. Comach
Director, Shipbuilding Branch	W. J. Corrigan
Acting Director, Armament & Vehicles Branch	J. R. Brisson
Director, General Purchasing Branch	D. M. Erskine

Operations

Director, International Programs Branch	A. D. Belyea
Director, Project Management Branch	R. M. Trites

Finance

Director, Planning & Control Branch	A. R. Bailey
Director-General, Contracts	J. W. Long
Acting Director, Emergency Supply Planning Group	C. O. Gervais
Director, Contract Administration Branch	J. J. Tevlin
Comptroller	N. R. MacLean

Canadian Government Printing Bureau

General Manager	C. B. Watt

Regional Purchasing Offices

CANADA

St. John's, Nfld.	Room 401, Main Post Office Building, Water Street, P.O. Box 487.
Halifax, N.S.	Second Floor, Sir John Thompson Building, Barrington Street, P.O. Box 1655.
Saint John, N.B.	Room 408, Sadim Building, Canterbury and Duke Streets.
Quebec 2, Que.	Gare Maritime Champlain, Chemin des Foulons.
Montreal 2, Que.	685 Cathcart Street.
Ottawa, Ont.	1010 Somerset Street West.
Toronto 1, Ont.	Room 1214, Mackenzie Building, 36 Adelaide Street East.
London, Ont.	388 Dundas Street, P.O. Box 2275 — Terminal "A".
Winnipeg 2, Man.	Room 326, 344 Edmonton Street.
Regina, Sask.	Room 302, New Post Office Building, Cornwall and S. Railway Streets.
Calgary, Alta.	Room 725, Public Building, 8th Avenue and 1st Street East.
Edmonton, Alta.	Room 309, Federal Building, 107th Street and 99th Ave.
Vancouver, B.C.	Harry Stevens Building, 125E, 10th Avenue.
Victoria, B.C.	Room 318, Canada Customs House, 816 Government Street.

OVERSEAS

London, England	Canadian Department of Defence Production, 1 Grosvenor Square, London W.1., England.
Paris, France	Canadian Department of Defence Production, 1, rue Chanez, Paris 16e, France.
Koblenz, Germany	Canadian Department of Defence Production, 54 Koblentz-Pfaffendorf, Emserstrasse 21, Germany.

Foreign Field Offices

INTERNATIONAL PROGRAMS BRANCH

LONDON, W.1., ENGLAND ..... Canadian Department of Defence Production,
Macdonald House,
No. 1 Grosvenor Square.

PARIS 8E, FRANCE ..... Department of Defence Production,
Ambassade du Canada,
35 Avenue Montaigne.

PARIS 16E, FRANCE ..... Department of Defence Production,
Canadian Delegation to the North
Atlantic Council,
OTAN-NATO,
Port Dauphine.

BONN, GERMANY ..... Department of Defence Production,
c/o Canadian Embassy,
Zitelmannstrasse 22,
Bonn, Germany.

ROME, ITALY ..... Department of Defence Production,
Ambasciata del Canada,
Via G.B. de Rossi 27,
Rome, Italy.

WASHINGTON, D.C., U.S.A. ... Canadian Joint Staff Bldg.,
2450 Massachusetts Ave.,
P.O. Box 4897,
Cleveland Park Station,
Washington 8, D.C., U.S.A.

BOSTON, MASS., U.S.A. ..... Canadian Department of Defence Production,
c/o L. G. Hanscom Field,
Bedford, Mass. 01731, U.S.A.

DAYTON, OHIO, U.S.A. ..... MCL/DDP,
Wright — Patterson Air Force Base,
Dayton, Ohio 45433, U.S.A.

DETROIT, MICH., U.S.A. ..... Canadian Department of Defence Production,
c/o Michigan Army Missile Plant,
38111 Van Dyke Ave.,
Warren, Mich., 48090, U.S.A.

LOS ANGELES, CALIF., U.S.A. Canadian Department of Defence Production,
Defence Contract Administration,
Services District,
55 South Grand Ave.,
Pasadena, Calif., 91109, U.S.A.

PHILADELPHIA, PA., U.S.A.	Canadian Department of Defence Production, US Army Electronics Support, Command/Det A, ATTN: SELSC/P-CD 225 South Eighteenth, Philadelphia, Pa., 19103, U.S.A.
ST. LOUIS, MO., U.S.A.	Canadian Department of Defence Production, AVCOM, P.O. Box 209, Main Street, St. Louis, Mo., 63166, U.S.A.

Crown Companies Associated with the Department of Defence Production

Canadian Arsenals Limited

President	J. R. Brisson
Vice-President	G. W. Hunter

Canadian Commercial Corporation

President	A. D. Belyea
Secretary and Legal Adviser	C. S. Stevenson
Comptroller	N. R. MacLean

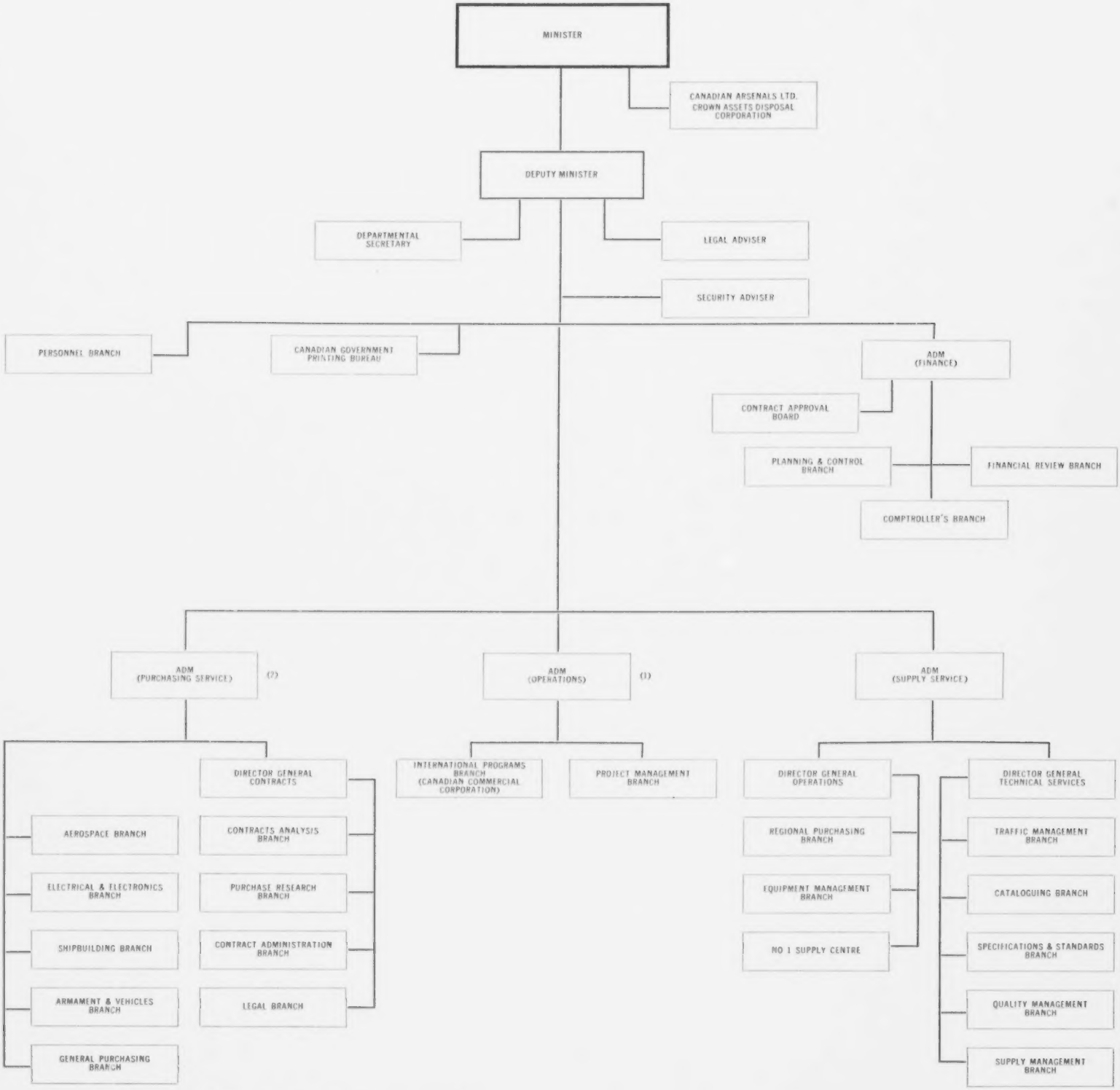
Crown Assets Disposal Corporation

President & General Manager	Louis Richard
Vice-President	G. W. Hunter
Assistant General Manager	I. M. Mackinnon
Secretary and Legal Counsel	R. LaPrairie

Polymer Corporation Limited

President and Managing Director	E. R. Rowzee
Vice-President	E. J. Buckler
Vice-President	L. D. Dougan
Vice-President	R. E. Hatch
Vice-President	I. C. Rush
Vice-President	S. Wilk
Treasurer	G. Bracewell
Secretary and Chief Legal Officer	W. J. Dyke

DEPARTMENT OF DEFENCE PRODUCTION



Notes:

(1) Incumbent of this position holds the equivalent position in the Department of Industry.

(2) To be Established in 1967.

1867 1967